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December 16, 2005

Dr. Leslie Marx
Chief Economist
Federal Communications Commission
445 12th Street SW
Washington, DC 20554

Dear Dr. Marx:

I am writing to you in connection with the report that Booz Allen Hamilton prepared on behalf of the NCTA in July 2004, entitled, "The a la Carte Paradox: Higher Consumer Costs and Reduced Programming Diversity."

In his remarks at the "Open Forum on Decency" conducted by the Senate Committee on Commerce, Science and Transportation on November 29, 2005, , Chairman Martin noted that our report had "fail[ed] to net out the cost of broadcast stations when calculating the average cost per cable channel under à la carte pricing. As a result of this mistake, the report understates the number of cable channels a consumer could purchase under à la carte pricing without seeing an increase in their bill."

We reviewed the July 2004 analysis in light of the Chairman's statement and found the following: To be consistent with the assumptions in our analysis, the anticipated charges for the basic tier of broadcast stations (which, under current law, must be purchased by all customers) should have been consistently removed from the calculation of the "breakeven" number of cable channels that a customer could buy without seeing an increase in his or her bill. Specifically, as Chairman Martin's statement suggested, revenues from the broadcast basic tier should have been excluded from the operators' video average revenue per user (ARPU) before calculating the average cost per channel under à la carte. And those revenues, along with revenues from premium, pay-per-view and video on demand, should also have been excluded in calculating how many à la carte channels the average consumer could purchase before facing an increased monthly cable bill.

Accordingly, we have revised the calculations found in Figure 2 and Appendix 8 of our July 2004 report to incorporate both these adjustments. The revised calculations are set forth in the following chart and explained below:

Revised Calculation of Average Price Number of Cable Networks Taken Before Increase in Consumer Bill

		Scenario 1		Scenario 2	
		Response A	Response B	Response A	Response B
STATUS QUO					
A	Video ARPU Before Consumer Price Increase	\$55.00	\$55.00	\$55.00	\$55.00
B	Set top rental fee (before a la carte)	\$2.80	\$2.80	\$2.80	\$2.80
C	Premium ARPU	\$6.70	\$6.70	\$6.70	\$6.70
D	PPV & VOD	\$1.50	\$1.50	\$1.50	\$1.50
E	Video ARPU Other than Basic Cable (Sum of B, C, D)	\$11.00	\$11.00	\$11.00	\$11.00
F	Applicable Video ARPU Before Consumer Price Increase (A-E)	\$44.00	\$44.00	\$44.00	\$44.00
STEP 1: CALCULATION OF AVERAGE PRICE PER CHANNEL					
A	Video ARPU Before Consumer Price Increase	\$55.00	\$55.00	\$55.00	\$55.00
G	Applicable Price Increase, Excluding Set Top Costs	14.61%	-1.97%	7.46%	5.05%
H	Video ARPU After Price Increase, Before Additional Set Tops [A x (1+G)]	\$63.04	\$53.92	\$59.10	\$57.78
I	Applicable Video ARPU After Consumer Price Increase (H - E) Note: compared to \$44 before a la carte	\$52.04	\$42.92	\$48.10	\$46.78
J	Broadcast Basic Cost	\$15.00	\$15.00	\$15.00	\$15.00
K	Consumer Bill Applicable for non Broadcast Basic Cable Channels (I - J)	\$37.04	\$27.92	\$33.10	\$31.78
L	Cable Networks Taken a la carte	11	11	11	11
M	Price per Channel (K/L)	\$3.37	\$2.54	\$3.01	\$2.89
STEP 2: CALCULATION OF BREAKEVEN NUMBER OF CHANNELS					
Analog Home					
A	Video ARPU Before Consumer Price Increase	\$55.00	\$55.00	\$55.00	\$55.00
C	Premium ARPU	-\$6.70	-\$6.70	-\$6.70	-\$6.70
D	PPV & VOD	-\$1.50	-\$1.50	-\$1.50	-\$1.50
O	Set Top Box Costs	-\$12.00	-\$12.00	-\$12.00	-\$12.00
P	Broadcast Basic Cost	-\$15.00	-\$15.00	-\$15.00	-\$15.00
Q	Consumer Spending on a la Carte Cable Channels Before Increase in Cable Bill (A-C-D-O-P)	\$19.80	\$19.80	\$19.80	\$19.80
R	Breakeven Number of Channels for Analog Homes (Q/M)	5.9	7.8	6.6	6.9
Digital Home					
A	Video ARPU Before Consumer Price Increase	\$55.00	\$55.00	\$55.00	\$55.00
C	Premium ARPU	-\$6.70	-\$6.70	-\$6.70	-\$6.70
D	PPV & VOD	-\$1.50	-\$1.50	-\$1.50	-\$1.50
S	Set Top Box Costs	-\$5.20	-\$5.20	-\$5.20	-\$5.20
T	Broadcast Basic Cost	-\$15.00	-\$15.00	-\$15.00	-\$15.00
U	Consumer Spending on a la Carte Cable Channels Before Increase in Cable Bill (A-C-D-S-T)	\$26.60	\$26.60	\$26.60	\$26.60
V	Breakeven Number of Channels for Digital Homes (U/M)	7.9	10.5	8.8	9.2

Calculating the average number of cable channels that a consumer would receive without an increased cable bill under à la carte involves two steps. First, we calculate the average price per

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cable channel that a consumer would likely face under the various scenarios we evaluated. Second, we calculate how many cable channels the average consumer would be able to purchase under each à la carte scenario, based on the per channel price from step 1. This number is derived from the remaining ARPU after subtracting other costs, including broadcast basic and additional digital set top box costs, that would first have to be paid before any spending on à la carte cable channels.

For step 1 – the average price per channel purchased à la carte -- we deduct from the \$55 average video ARPU the \$15 broadcast basic cost (row J in the chart) and the \$11 in other revenues not attributable to basic cable that is not attributable to basic cable (rows B, C and D, the sum of which appears in row E). This reduces the average cost per channel taken to a revised range of \$2.54 to \$3.37.

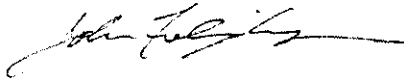
For step 2, calculating the breakeven number of cable channels before a consumer would face an increase in their monthly bill under à la carte, we need again to subtract the revenues attributable to broadcast basic, premium, pay-per-view, and video on demand.

When both these adjustments are made, the estimated number of cable channels that a consumer would be able to purchase on an à la carte basis does not differ significantly from the results in our 2004 report. The 2004 report estimated that digital customers would be able to purchase 7 to 9 à la carte cable channels, while analog customers would be able to purchase 6 to 7. Making the two offsetting adjustments results in a range of 8 to 10 channels for digital customers, and 6 to 8 channels for analog customers.

Our conclusions therefore remain unchanged as a result of these two adjustments. Under all of the scenarios evaluated, consumers would be able to purchase fewer than the 11 cable channels that they regularly watch today, for the same price that they currently pay to receive the entire basic and enhanced basic tiers.

Please don't hesitate to call me with any questions at 212-551-6555.

Sincerely,



John Frelinghuysen
Vice President

BOOZ ALLEN HAMILTON INC.